DBS NAV Insights

Market updates and financial planning highlights curated for you

16th - 22nd June

The tech capex uptrend

In an effort to support advancement of its semiconductor industry, China spent USD33 billion in 2020 on subsidies for technological development and migration - 14% higher than 2019 and 12 times larger than a decade ago.

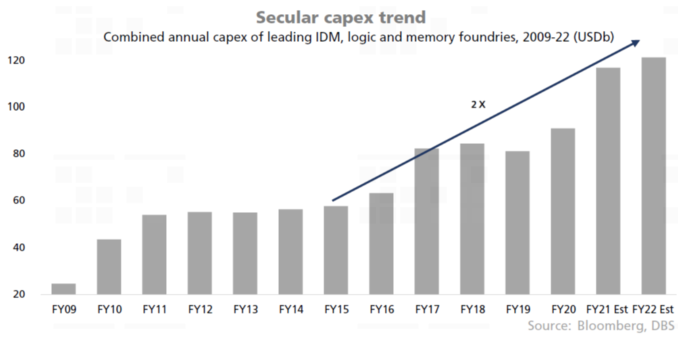
Going forward, China will continue to commit a large portion of national expenditure in research and development to strengthen the move towards higher value-add and self-sufficiency in technology.

With the US Innovation and Competition Act, USD250 billion will be invested in research and development and advanced manufacturing. USD52 billion of it will be used for semiconductor research, design, and manufacturing.

Against this backdrop, the alliance of integrated device manufacturers as well as logic and memory foundries are projected to spend USD110-120 billion in annual capex in 2021 and 2022, double that of 2015 and with sustainable upside room over the coming years (see chart).

Government-led initiatives will lead a fresh round of long-term earnings growth and capex expansions among the world's leading semiconductor players, including the equipment makers.

We are convinced that the new capex cycle is still at preliminary phase, as many of the industry players have just started to rollout new commitments to revolutionise the technology of tomorrow.



Structurally important, this trend and the race for technological advancement will bolster the size of the total addressable market.

This will benefit a wide range of companies in IC design, wafer foundry, semiconductor equipment, communication networks, artificial intelligence, cloud services, high performance computing, power management, industrial automation, and data analytics.

In terms of positioning for investing, the Barbell Strategy is well positioned for the secular capex trend and will ride on the broad long-term technological migration over the coming years.

The full report can be accessed here.

Commodity inflation's here to stay

In general, commodity prices have seen a sharp recovery since 2H20 post the initial phase of Covid-related lockdowns.

The rebound has continued well into 2021, helped by expansionary monetary policies and a weak USD.

We believe commodity inflation is here to stay in 2021, and while we could see some moderation in commodity prices in 2H21 after the heady run in the past few months, average commodity prices in 2021 will end up significantly higher than in 2020.

This will obviously benefit the upstream producers of these commodities, leading to record profits for commodity producers.

Share prices have done well year-to-date in 2021 and we believe there is still room to invest in select metal, energy and agricultural upstream commodity stocks.

Commodity price trends

	Price as of	Price Performance (%)			
	11 Jun 2021	Since 2020 trough	YTD 2021	3-month	1-month
World benchmark HRC steel prices (US$/ton)	1,100	+186%	+79%	+50%	+14%
Iron ore prices (US$/ton)	208	+145%	+30%	+15%	+4%
LME Copper (US$/ton)	10,029	+117%	+30%	+11%	-5%
LME Nickel (US$/ton)	18,205	+68%	+10%	+12%	+2%
LME Aluminium (US$/ton)	2,490	+75%	+26%	+15%	-2%
Brent Crude Oil (US$/bbl)	73	+276%	+40%	+4%	+6%
Newcastle Coal (US$/ton)	124	+112%	+55%	+51%	+26%
Asia Spot LNG (US$/mmbtu)	10.9	+447%	-24%	+80%	+20%
CPO prices (US$/ton)	939	+86%	-1%	-9%	-19%
Soybean prices (US$/ton)	1,439	+74%	+29%	+16%	+1%

Note: *CPO Price forecasts are net of Indonesia export levies + Tax of US$330 per ton total at CPO price > US$1,000 per ton*
Source: *Bloomberg Finance L.P., DBS Bank forecasts*

The full report can be accessed here.

HK/CN Focus - Property

In response to market scepticism over the sector's deleveraging quality, we have taken a deeper look at Chinese developers' gearing positions after reversing the estimated impact of potentially favourable accounting adjustments.

These favourable adjustments include shifting highly geared projects off balance sheet, revaluation adjustments, and payables management.

Overall, our analysis suggested that developers did make solid progress on deleveraging in 2020.

As such, we the view that developers' deleveraging progress is genuine, and market scepticism over the trend has been overplayed.

We continue to favour companies with superior financial strength – which are likely to outperform given their better accessibility to quality land at decent costs under the concentrated land supply policy.

Our top picks are:

China Vanke "H" shares

Buy Target Price: **HK$45.56**

CR Land

Buy Target Price: **HK$49.60**

Logan Property

Buy Target Price: **HK$16.44**

The full report can be accessed here.

SG Focus - China Retail Reits

Retail sales in China posted a V-shaped recovery to reach above pre-pandemic levels by Sep 20. E-commerce's share of the pie grew during the pandemic. It contributed 27.2% of total retail sales in the first 4 months of 2021.

The pivot towards more online purchases is not even, with trade sectors like sports & recreation goods and furniture being the most disrupted categories while items such fresh foods, luxury goods remained resilient.

Malls with exposure to these "resilient" trade sectors may be better prepared to defend their turf. That said, brick and mortar operators were quick to innovate, offering live streaming and duo concept stores to woo Chinese consumers back to malls.

The battle between online and offline retail will continue as retail merchants continue to squeeze synergies through omnichannel strategies. We prefer Reits with sector diversification for investors looking for exposure to the growing China market.

Sasseur REIT

Buy Target Price: **S$3.01**

EC World REIT

Buy Target Price: **S$1.38**

BHG Retail REIT

NR Target Price: **NA**

The full report can be accessed here.

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Semiconductor sector - It comprises companies engaged in the design and manufacture of integrated circuit (IC) chips or microchips.

Capital expenditure - It is spending done by a firm to acquire physical assets, property, technology and equipment, among others, that increases the scope of their operations or add some economic benefit to the operation.

H-shares - Shares of Chinese stocks that are denominated in the Hong Kong dollar and trade on the Hong Kong stock exchange. These shares are freely tradable by all non-Chinese citizens.

V-shaped recovery - Such a recovery is known to be quick and sustained in terms of economic performance after a sharp economic decline. This is considered a best case scenario when in a recession.

digiPortfolio monthly column for June

Returns matter!

It does not matter whether it is an investor's first dollar or a seasoned investor making his 1,000th trade. When it comes to investing, the one factor that matters more than anything else is performance returns.

However, investors typically look at just absolute returns when evaluating investments.

Should that be the case?

Taking returns at face value

It is quite common for investors who have a small portfolio of securities to compare investments against one another. For instance, an investor investing in 3 funds - Fund A returning +5%, B -2% and C 0% in the year-to-date period - would look at the performance of the 3 funds and likely comment that only Fund A has done well.

If the reality is that all 3 funds have very different mandates such as a Reit or technology sector focus or bonds vs equities, comparing absolute returns may not paint a complete picture.

Identifying appropriate benchmarks for your investments would provide a better sense of your returns. In the illustration above, if Fund B was a technology focus fund and an index such as the MSCI Info Tech was -5% over the same period, one could argue that Fund B had in fact performed well.

Conversely, if Fund A focuses on China equities and the MSCI China index returned +10% over the same period, it is fair to say that Fund A actually underperformed!

Likewise, for digiPortfolio, comparing the Asia portfolio's returns against a technology fund or even our own Global portfolio would certainly not be appropriate.

With Asia portfolio's investment universe of Singdollar investments with a Singapore tilt, a combination of the Straits Times Index and the ABF Singapore Bond index may form a better basis for comparison.

In sum

Absolute returns are important but with appropriate benchmarking, investors will be better equipped to differentiate between strong managers and average ones over the medium term.

Hear from our DBS investment team in next month's column as we dissect digiPortfolio's Q2 performance and our outlook ahead.

The digiPortfolio quarterly update for 1Q21 can be found here.

Recommended Readings

10 financial tips for women
Clearing up investment Jargon
Beginner's guide to crypto
5 tips for retiring well
8 CPF 'hacks' to grow your nest egg

Upcoming Webinars

Topic: Setting up a resilient financial plan
Date: 24th - 26th June
Location: Online and DBS/POSB branches

Sign up here!

Previous newsletters

- Semiconductors, featured (12th - 18th May)
- Keeping score on S-Reits (19th - 25th May)
- US fund flows signals optimism (2nd - 8th June)
- Navigating inflation (9th - 15th June)

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